

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6658**

**BILL NUMBER:** HB 1293

**DATE PREPARED:** Jan 12, 2002

**BILL AMENDED:**

**SUBJECT:** Prescription Drug Discounts.

**FISCAL ANALYST:** Kathy Norris

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill establishes the Rx program to provide discounted prescription drug prices to uninsured persons, underinsured persons, and Medicare recipients. The bill allows a drug manufacturer or labeler that sells prescription drugs to voluntarily enter into a rebate agreement with the State Department of Health that requires rebate payments to be made to the state for the Rx program. The bill authorizes the State Department to negotiate the amount of the rebate and audit a manufacturer or labeler to assure compliance. It also requires a retail pharmacy to sell the drugs covered by the Rx program to participants in the program at the discounted price. The bill establishes: (1) a formula for the state to use in calculating discount prices for drugs covered by the rebate agreement; (2) a procedure for resolving rebate amount discrepancies; and (3) the Rx dedicated fund, consisting of revenue from manufacturers and labelers who pay rebates and appropriations to the fund.

**Effective Date:** July 1, 2002.

**Explanation of State Expenditures:** The State Department of Health has estimated that 147 new staff positions would be needed to implement this new program at a cost of \$7.3 M the first year and \$7 M in the second year. These estimates do not include any new system development costs. In order to operate the Rx Program as described, the Department would need to have the infrastructure of the program administration in place upon enrollment of the first beneficiaries. (The bill requires retail pharmacies to be reimbursed within two weeks of the claim.) Rebate revenues are required on a quarterly basis. The necessary cash flow for program implementation would most likely need to be funded by the State General Fund.

The Kaiser Family Foundation reported that in 1996, 23% of the non-Medicare population and 31% of Medicare beneficiaries had no prescription drug coverage. Most of the non-elderly Americans without drug coverage were reported to have no health insurance at all. (The data reported is prior to the implementation of the CHIP program in Indiana.) Seniors lack drug coverage because Medicare does not cover outpatient prescription drugs and they do not have a private policy. Applying these percentages of individuals with no

prescription drug coverage to Indiana population estimates for 1998, approximately 1.4 million Hoosiers (1,179,738 non-Medicare and 227,792 Medicare beneficiaries) would qualify for the Rx Program.

**Explanation of State Revenues:** In State FY 2000, the Medicaid Program reported 651,924 recipients with paid legend drug claims of \$433,362,866. The total average annual drug expenditure was approximately \$664.74 for the Medicaid population. For the same fiscal year, Medicaid reported total drug rebate payments of \$79,287,685. Rebates were approximately 18.3% of the total outpatient pharmacy claims, or \$121.62 per recipient. If it is assumed that Medicaid outpatient pharmacy experience is applicable to the uninsured and under-insured population, the Rx Program rebates might produce annual revenue of \$171.2 M. After deducting administrative expenses, this would potentially allow \$163.9 M, or \$117.07 per recipient, to be distributed as drug discounts and dispensing fees. Due to the seriously disabled population covered within Medicaid, this estimate should probably be regarded as the maximum of the range of rebates that could be achieved.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Health; Family and Social Services Administration, Office of Medicaid Policy and Planning.

**Local Agencies Affected:**

**Information Sources:** “*Demographic Trend Report, Division of Family and Children Selected Assistance Programs for State Fiscal Year 2000*”; The Henry J. Kaiser Family Foundation “*Prescription Drug Trends*” Fact Sheet #3057 at the Kaiser Foundation web site at [www.kff.org](http://www.kff.org); Marilyn Cage, Legislative Liaison for the State Department of Health, (317) 233-2170; U.S. Census population estimates at [www.census.org/statab/USA98/18/000.txt](http://www.census.org/statab/USA98/18/000.txt).